BILL # HB 2363

TITLE: personal property tax; accelerated depreciation

SPONSOR: Reagan

STATUS: As Introduced

PREPARED BY: Hans Olofsson

FISCAL ANALYSIS

Description

This bill would amend the additional statutory (or commonly referred to as "accelerated") depreciation schedule used to value commercial and agricultural personal property for property tax purposes. The proposed schedule would apply only to property that is entered on the tax rolls for the first time in tax year 2007 and would change as follows:

Year of Assessment	% of Scheduled Depreciated Value – Current Law	% of Scheduled Depreciated Value – Proposal
1st	35%	30%
2nd	51%	46%
3rd	67%	62%
4th	83%	78%
5th	100%	94%
6th	100%	100%

The scheduled depreciated value refers to a personal property item's value after normal depreciation but before applying additional depreciation. For example, if the Department of Revenue's (DOR) valuation table indicates that a $2,000 personal computer (PC) has an economic life of 4 years and will depreciate by 50% in its first year of use, then the PC's scheduled depreciated value in the first year of its assessment would be $1,000. At the current 35% accelerated depreciation schedule, its full cash value is $350. The bill would further accelerate depreciation to 30%, which would result in a full cash value of $300 in this example.

Estimated Impact

Based on data furnished by the Maricopa County Assessor's Office, it is estimated that HB 2363 would have a General Fund cost of $3.9 million beginning in FY 2008. The bill would reduce statewide net assessed valuation (NAV), which would result in an increase of the state's K-12 education formula cost. Since the bill would only affect new property in the first year of its implementation, there would be no offsetting cost savings under the state's truth-in-taxation (TNT) provisions.

Analysis

According to an analysis provided by the Maricopa County Assessor's Office, it is estimated that HB 2363 would result in a NAV loss of about $(85) million in Maricopa County. Based on data included in the Department of Revenue's *State and County Abstract of the Assessment Roll*, it is estimated that Maricopa County's NAV for property affected by this bill constitutes 72% of the statewide total. Thus, it can be inferred that the bill would result in a statewide NAV loss of an estimated $(118) million.

Under the state's K-12 education funding formula, it is estimated that a loss of the local tax base of $(118) million would increase the state share of school funding by about $3.9 million in FY 2008. Since the bill would apply only to new property in the first year of its implementation, the NAV loss would not affect existing property and thus the TNT calculation used to derive the qualifying tax rate (QTR). For this reason, the bill would not generate an offsetting cost savings in FY 2008.

Local Government Impact

This bill will result in property tax losses for local governments and/or shifts of the tax burden to property owners not directly affected by this legislation.

1/26/07